

You and Your Bond Trustee A 30 Year Marriage



Presentation for:

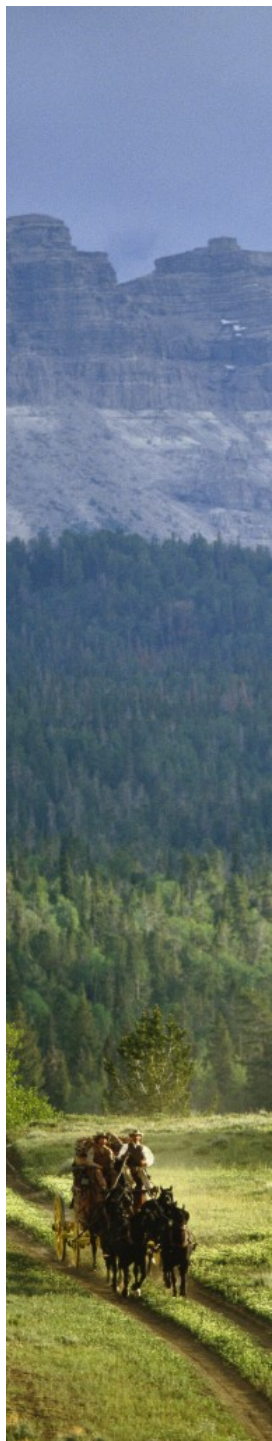
The California Debt and Investment Advisory Commission
Fundamentals of Debt Financing

Presented by:

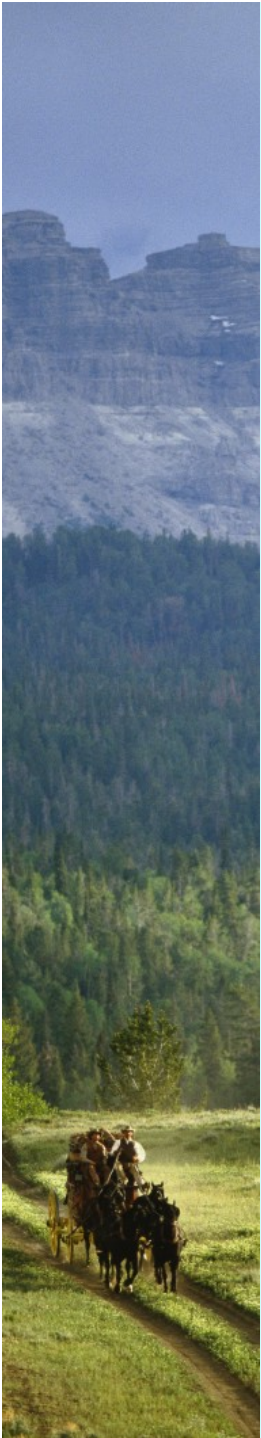
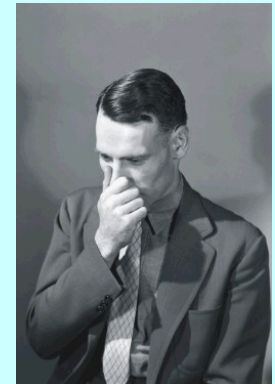
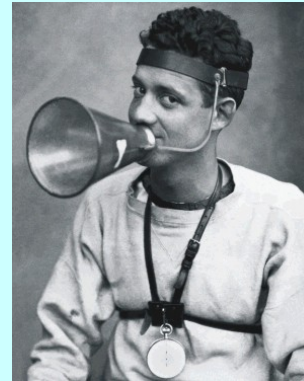
John Deleray

Wells Fargo Corporate Trust & Escrow Services

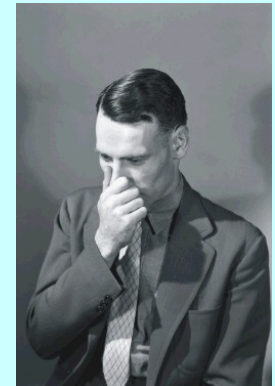
213.614.3351



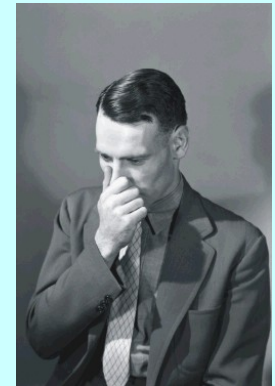
Bond Closings



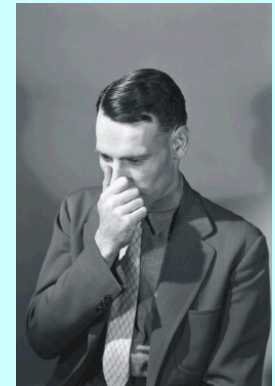
Bond Closings



Bond Closings



Bond Closings



Bond Closings



How You Should Monitor Your Bond Debt

(with help from your Trustee)

Watch list:

- Interest Earnings on Bond Proceeds
- Calculation of Interest to Bondholders
- Redemption of Bonds
- The Mighty GIC
- Cash Flows
- Project Fund Distributions



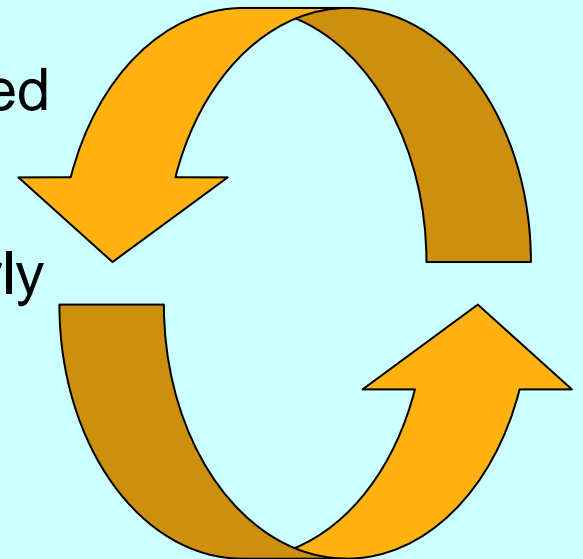
30 Years of Funds Movement

Flow of Interest Earnings:

- Example: from Reserve fund to Project fund

Possible Repercussions!

- Project not fully funded or over-funded
- Reserve requirement not fully met
- Excess funds not being given properly as a credit



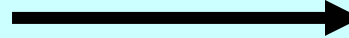
30 Years of Funds Movement

Example: Correct Transfer: Reserve Fund Earnings to Project Fund

\$5,000,000

**Reserve
Fund**

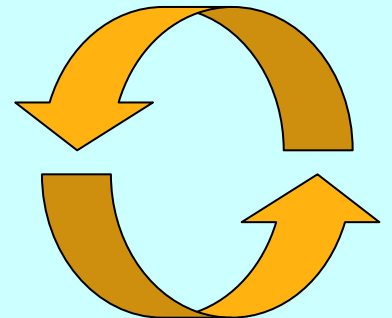
5% earnings



3 Year Project Fund

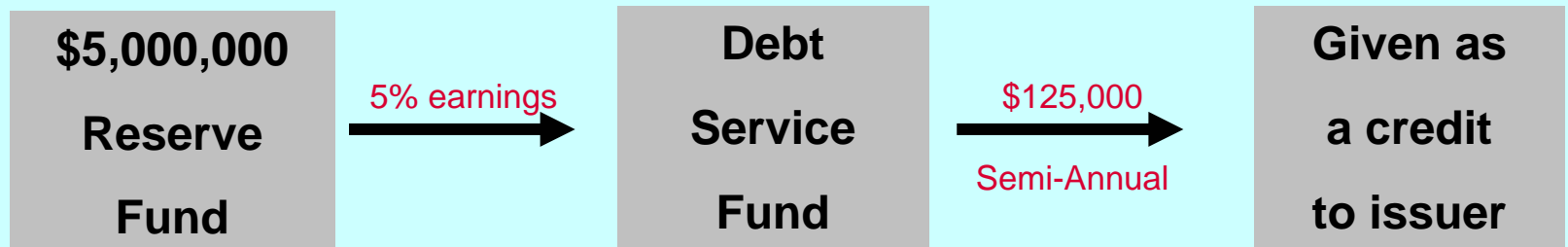
+\$250,000 per year

= \$750,000 total



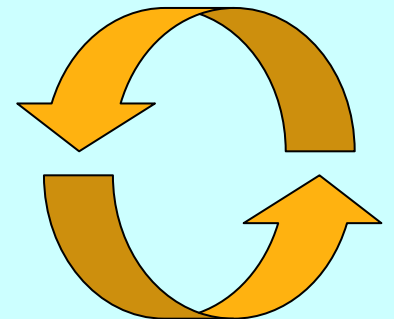
30 Years of Funds Movement

Example: Incorrect Transfer: Reserve Fund Earnings to Debt Service Fund



After 3 years

***Project Fund
is
\$750,000 short!***



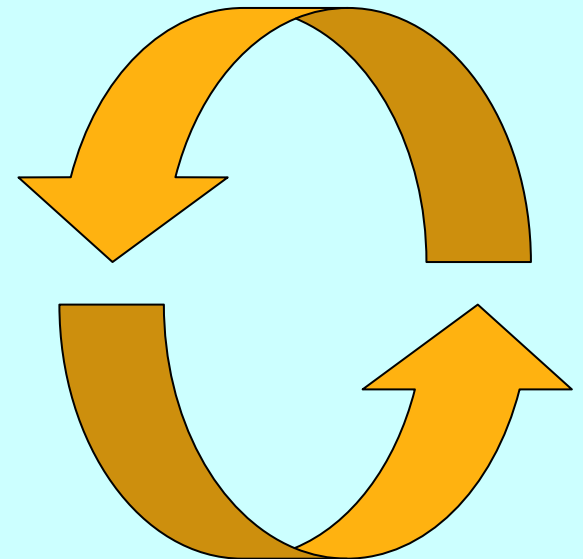
Issuer & Trustee Working Together (Funds Movement)

What might an Issuer do?

- Meet with Trustee after bond closing
- Know and check the movement of interest earnings

What does your Trustee do?

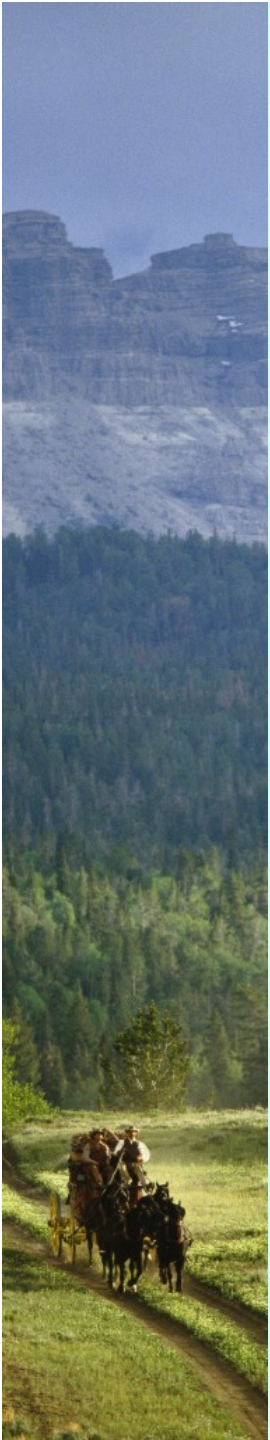
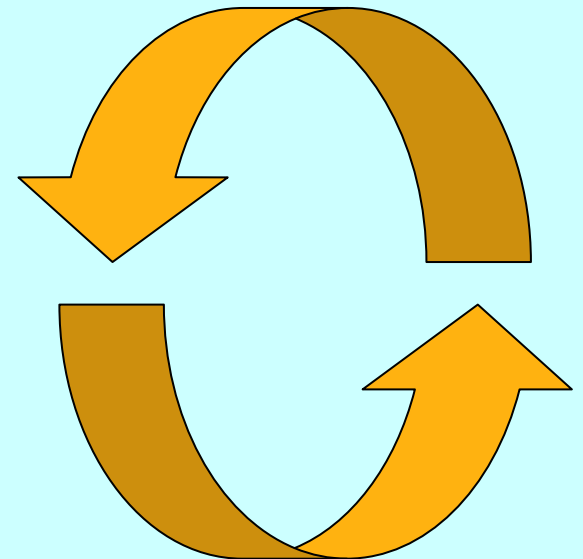
- Set up ticklers correctly
using a second set of eyes
(Secondary Review)



30 Years of Investing

Investments

- Are they permitted?
- Are you maximizing yield?
- And what about arbitrage/rebate?





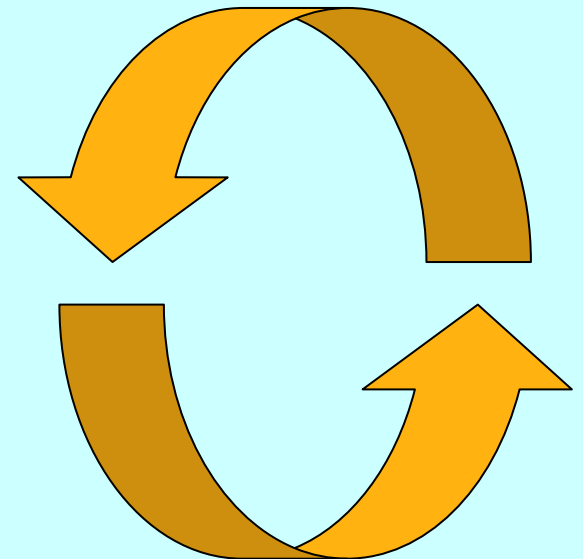
Issuer and Trustee Working Together (Investments)

What should an Issuer do?

- Investing is your responsibility
- Understand Arbitrage

What does your Trustee do?

- Investment Services arm of Corporate Trust
- Remind our clients when Arbitrage calculations are due



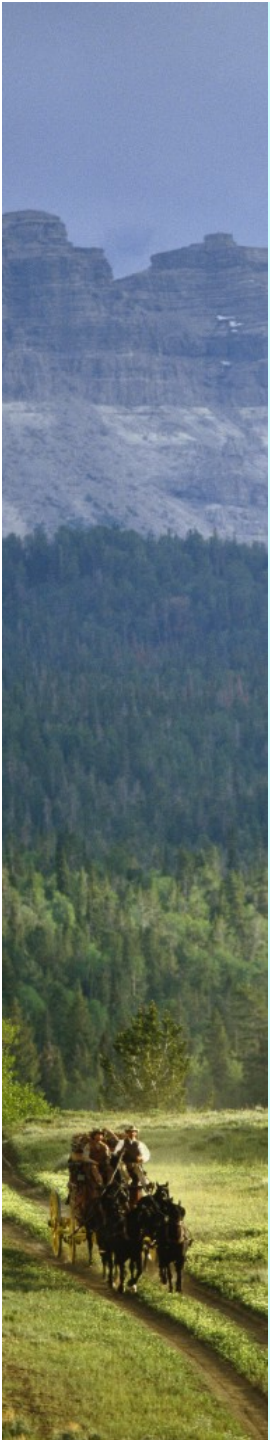
30 Years of Interest Calculations

Calculation of Interest to Bondholders:

- Variable Rate Debt
- Remarketing Agent sends rates to trustee who inputs into excel spreadsheet

Possible Repercussions!

- Incorrect calculation of interest
- Unhappy Bondholders
- Or *Really* happy Bondholders



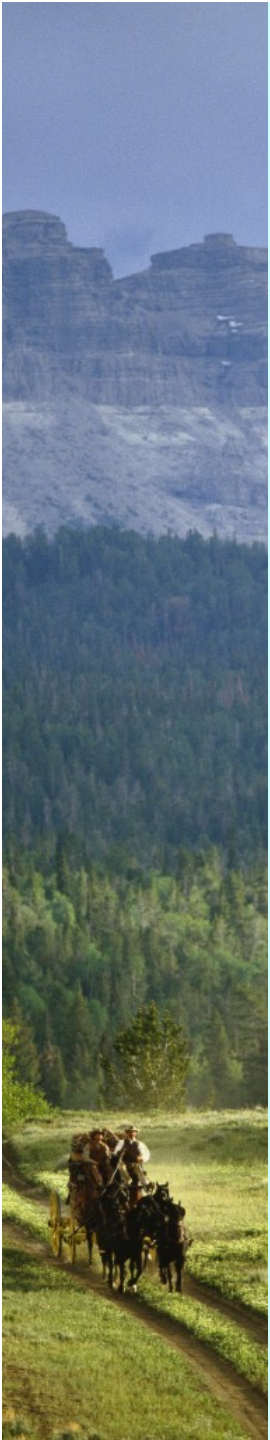
Issuer and Trustee Working Together (Interest Calculations)

What might an Issuer do?

- Receive rates directly from Remarketing Agent
- Check Trustee's spreadsheet prior to interest payment

What does your Trustee Do?

- Uses a second set of eyes
- Entire process is automated





30 Years of GIC-ness

Guaranteed Investment Contracts

- Interest being calculated correctly?
- GIC provider in balance with trustee?
- Most important in project funds

Possible Repercussions:

- Incorrect balance in trust
- All possible earnings not received



30 Years of GIC-ness

Decreases in GIC balances are MANUAL entries for a Trustee

Example: \$20mm Project Fund

- Issuer sends: \$3mm Requisition to Trustee (to pay contractor)
- Trustee draws on GIC
- GIC statement shows \$17mm
- Trustee statement shows?????



Issuer and Trustee Working Together (How to Tame the GIC)

What might an Issuer do?

- Check GIC provider statements vs. Trustee statements

What does your Trustee do?

- Separate, centralized GIC-unit
used to monitor all GICs nationally

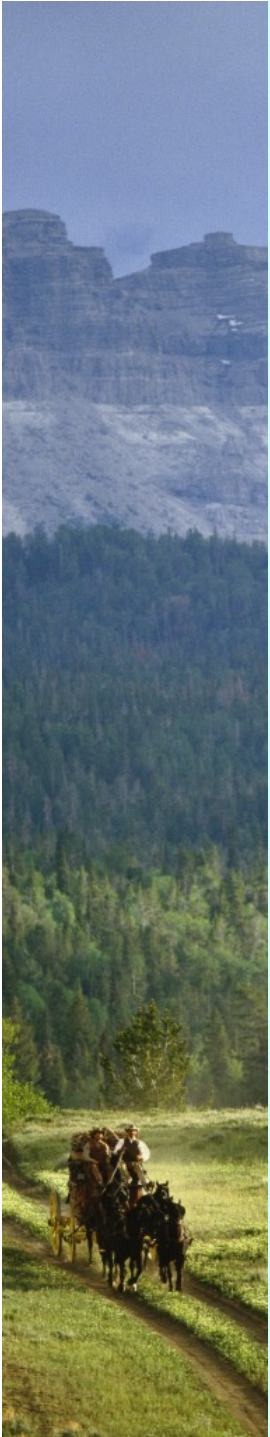
30 Years of Cash Movement

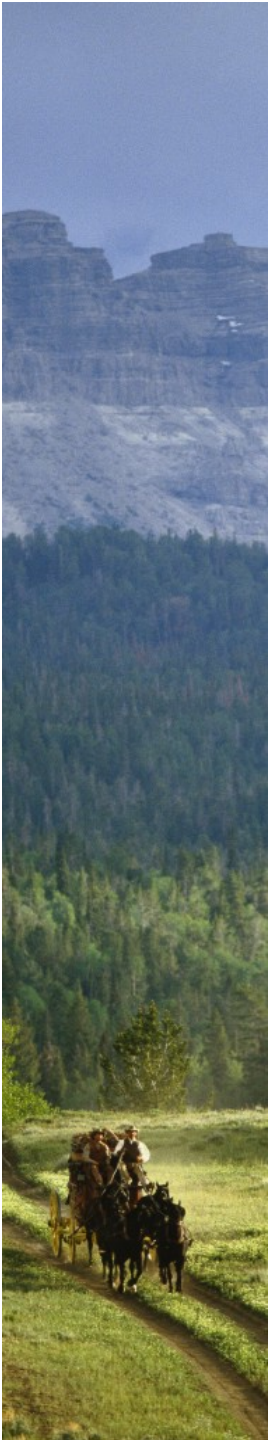
Cash Flows:

- Revenue Bond Debt (Marks Roos Debt, in particular)
- From the Revenue Funds, where does my revenue go?

Possible Repercussions!

- Bonds not redeemed correctly
- Project fund not fully funded
- Proper credits not given





Issuer and Trustee Working Together (Feeling the Flow)

What might an Issuer do?

- Know flow of funds, check trustee's work
- Know possible redemption date

What does your Trustee do?

- Thorough review of flow when debt service is paid



3 Years of Project Monitoring

Project Fund Distributions:

- Requisitions in numerical sequence
- Amount paid correctly

Possible Repercussions!

- Angry payees
- Payees double paid





Issuer and Trustee Working Together (Monitoring a Project Fund)

What should an Issuer do?

- Make sure that requisitions are numbered correctly
- Check Trustee statements!!!

What does your Trustee do?

- Uses a second set of eyes



30 Years of Bond Bliss

What's an Issuer to Do?!

- Know and check the movement of Interest Earnings
- Understand your Rebate requirements (what role is your Trustee playing?)
- Verify trustee interest rate spreadsheets (for Variable Rate Debt)
- Understand how and when bonds are to be redeemed
- Check GIC balance and ask trustee for verification of interest
- Know and check revenue cash flows
- Check Project Fund requisitions



We're here to help You!



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